

The complaint

Miss B complains that Madison CF UK Limited trading as 118118 Money (“MCF”) lent to her in an irresponsible manner.

What happened

Miss B was given a loan by MCF in December 2019. She borrowed £1,500 and agreed to repay the loan in 18 monthly instalments. Miss B appears to have faced some problems repaying the loan and a balance remained outstanding when she made her complaint.

I am aware that Miss B has also raised concerns over the operation of a credit card account she holds with MCF. But, in this decision, I will only be dealing with the loan she took in December 2019. I understand that Miss B intends to raise a separate complaint about her credit card account.

Miss B’s complaint has been assessed by one of our investigators. She thought that the results of the checks that MCF performed before agreeing the loan should have led the lender to conclude that Miss B was facing problems managing her money. So our investigator didn’t think the loan should have been agreed, and asked MCF to put things right.

MCF accepted our investigator’s assessment and set out for Miss B the steps it had taken to implement the redress that our investigator had recommended. Our investigator thought that MCF’s actions put things right for Miss B in a fair and reasonable manner. But Miss B was unhappy with what MCF had done. So, as the complaint hasn’t been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

What I’ve decided – and why

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

As I have said earlier, MCF has accepted our investigator’s assessment that the loan shouldn’t have been provided to Miss B. So I don’t need to consider any further whether or not the loan was lent responsibly. What I need to decide in this decision is whether the steps MCF has taken to put things right are fair, or if not, what else the lender should be directed to do.

At the outset I think it is useful to reflect on the role of this service. This service isn’t intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn’t occurred.

In the case of irresponsible lending, it isn’t possible to place a consumer back into the exact position they would have been had the loan not been agreed. The loan was provided, and

the consumer has had the benefit of that capital. In all bar exceptional circumstances I would think it reasonable that the capital that was lent should be repaid. But I don't think a lender should benefit from its irresponsible lending – so I don't think it should receive any interest, or levy any other charges, as a result of the loan.

Here, in common with many other loans, the total interest that will be payable is calculated at the outset of the loan, and a proportion is paid as part of each monthly repayment. Should a consumer decide to exercise their right to end a loan early, a proportionate refund of the interest would be made. So it is relatively easy for MCF to demonstrate the amounts of capital and interest that formed Miss B's borrowing.

The credit agreement that Miss B signed set out that she was borrowing £1,500. And that she would be charged interest of £968.52. So those amounts combined gave the total amount that Miss B would need to pay of £2,468.52. That was the balance of Miss B's loan account at the start, and what would reduce as she made any repayments.

So to put things right, our investigator asked MCF to reduce the outstanding balance by the total of any interest or charges that had been paid to date. And to ensure that any remaining balance isn't subject to interest or charges either.

Miss B has only repaid a small part of the capital she borrowed. And based on what I said earlier I do think the whole amount of capital should be repaid. So by deducting the whole of the interest that was added at the outset of the loan from Miss B's outstanding balance I think that MCF has fully complied with what our investigator asked it to do. And for the avoidance of doubt, those are the directions I would have given had I upheld the complaint.

So I think that what MCF has done is reasonable. I will repeat those steps below, but from the evidence I have seen I don't think MCF needs to do anything further in order to put things right.

There are two other matters that I should address at this point in my decision. As Miss B will see from my directions below, MCF has been directed to remove any adverse information from her credit file in relation to this loan. The information that MCF is being asked to remove is that which is already in place. Should Miss B fail to meet any repayment arrangement in the future in relation to the outstanding capital balance it wouldn't be unreasonable for MCF to reflect that delinquency on her credit file. And given that the removal of the historic information is to a degree outside of MCF's control it might take a short period of time for any changes to be reflected on Miss B's credit file.

I also direct below that MCF should treat Miss B positively and sympathetically when discussing the repayment of the outstanding capital balance. But that doesn't mean it would be unreasonable for MCF to follow its normal debt collection approach should Miss B fail to repay what she owes. I have seen that MCF made an offer to Miss B to pay a reduced amount to settle her loan – although that might have implications in terms of her credit reporting. I don't think that offer is inconsistent with what I have directed MCF to do to put things right – but as the letter from MCF explained, Miss B doesn't need to accept the offer.

Putting things right

MCF has accepted that it shouldn't have lent to Miss B in December 2019. Unless it has already done so, MCF should;

- remove any interest and charges still outstanding on the loan and treat all the payments Miss B has made towards this loan as payments towards the capital

- if reworking Miss B's loan account as I've directed results in Miss B effectively having made payments above the original capital borrowed, then MCF should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement†.
- if, as seems likely, reworking Miss B's loan account leaves an amount of capital still to be paid, then I remind MCF that it should take a sympathetic view when seeking to agree an affordable repayment plan with Miss B
- remove any adverse information already recorded on Miss B's credit file in relation to the loan

† HM Revenue & Customs requires MCF to take off tax from this interest. MCF must give Miss B a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold Miss B's complaint and direct Madison CF UK Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 22 April 2022.

Paul Reilly
Ombudsman